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INDIA

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## INDIA - KEY ECONOMIC INDICATORS

All values in U.S.$ million unless otherwise indicated. Indian fiscal year is April 1 to March 31.

Exchange rate[a]: U.S.$ 1.00 = Rs.9.65

| | 1980-81 A | 1981-82 B | 1982-83 C | Percent Change C/B |
|---|---|---|---|---|
| **INCOME, PRODUCTION, EMPLOYMENT** | | | | |
| GNP at Current Prices ($ billion) | 133.18 | 153.04 | 156.87 | 2.5 |
| GNP at Constant (1970-71) Prices ($billion) | 57.37 | 60.62 | 60.62 | - |
| Per Capita GNP,Current Prices ($) | 196.43 | 220.84 | 221.88 | 0.5 |
| Industrial Production Index (1970=100) | 154.00 | 167.30 | 172.00 | 2.8 |
| Agricultural Production Index (1967/68-69/70=100) | 134.90 | 142.60 | 134.80 | -5.5 |
| Labor Force (million) | 262.00 | 267.20 | 272.50 | 2.0 |
| Number of Persons Registered at Employment Exchanges (million) | 16.20 | 18.03 | 20.0 | 10.9 |
| **MONEY AND PRICES** | | | | |
| Money Supply with Public[b] ($ billion) | 57.46 | 64.82 | 74.32 | 14.7 |
| Prime Lending Rate (State Bank of India) (percent) | 16.5 | 16.5 | 16.5 | - |
| Wholesale Price Index (1970-71=100) | 257.3 | 281.3 | 288.3 | 2.5 |
| Consumer Price Index (1960=100) | 401.0 | 451.0 | 486.0 | 7.8 |
| **BALANCE OF PAYMENTS AND TRADE** | | | | |
| SDRs, and Foreign Exchange Reserves,gross | 6,858 | 4,461 | 4,964 | 11.3 |
| External Debt | 15,690 | 17,630 | 21,300 | 20.8 |
| Annual Debt Service | 1,078 | 1,018 | 914 | -10.2 |
| Overall Balance c/ | -1,381 | -3,087 | -1,477 | 52.1 |
| Balance of Trade | -7,414 | -6,485 | -6,000 | 7.5 |
| Indian Exports, FOB | 8,505 | 8,669 | 9,680 | 11.7 |
| U.S. Share d/ | 1,098 | 1,202 | 1,404 | 16.8 |
| Indian Imports, CIF | 15,919 | 15,154 | 15,680 | 3.5 |
| U.S. Share d/ | 1,689 | 1,748 | 1,598 | -8.6 |

Major imports from U.S. (1981): machinery and transport equipment, 521; chemicals & fertilizers 367; wheat 240. Major exports to U.S. (1981): precious and semi-precious stones and pearls, 281; textile articles, 170; wearing apparel and accessories, 181; coffee and tea 70.

a/ Foreign trade rupee data converted into dollars at Rs.7.89 for 1980-81, Rs.9.00 for 1981-82 and 9.65 for 1982-83.
b/ Includes time deposits.
c/ Current and Capital Accounts Balance.
d/ Calendar year figures (1980, 1981, 1982).

Source: GOI Central Statistical Organization, Reserve Bank of India Bulletin, GOI Economic Survey, U.S. Department of Commerce, World Bank.

SUMMARY

The Indian economy, which performed well over the past two years, is expected to record practically no growth in fiscal year 1982/83. This is primarily due to a very poor monsoon, which caused a 5-6 percent drop in agricultural output. The foodgrain and oilseed crops were particularly hard hit and in order to rebuild stocks and contain prices the Indian Government resorted to foodgrain imports for the second year in a row. Growth in the industrial sector was sluggish, around 3 percent. While India is making excellent progress in expanding domestic oil and gas production, extensive power shortages continue to plague the economy. Wholesale prices increased by only 2.5 percent in 1982/83, but it now appears that inflation is once again gaining momentum. The Reserve Bank of India has taken some steps to mop up the excess liquidity in the economy.

India's balance of payments will continue under pressure. The 1982/83 trade deficit is expected to be in the range of $6.0 billion, a significant improvement over the previous two years. In 1981/82 the U.S. had a 10.4 percent share of the Indian market. Total U.S. exports to India in 1981/82 amounted to $1,579 million.

India's foreign commercial policy is more liberal than in the past, with an emphasis on efficient import substitution and technology transfer. The Government is actively encouraging foreign firms to invest in selected industries. India continues to offer a good market for U.S. firms, particularly those exporting renewable energy equipment, machine tools, scientific tools instruments, food processing and packaging equipment, electronic equipment and computers, chemical and petrochemical equipment, railroad equipment, and petroleum exploration and development equipment. END SUMMARY.

The Indian fiscal year runs from April through March, and the year ending March 31, 1983 was a difficult one for the Indian economy. Plagued by drought, stagnant industrial production, labor unrest, and weak export growth, there was little or no growth in GNP in real terms. During the previous two years the economy had grown at a rate of 8 percent and 6 percent, yielding an average of less than 5 percent for the first three years of the Sixth Five-Year Plan (1980-85). Average per capita income for India's population of 707 million is about $222 and is among the lowest in the world. For fiscal year 1983/84, as is generally the case, the decisive factor for the economy will be the southwest monsoon. Assuming a favorable monsoon, and coming off a poor year, GNP could grow by as much as 7 percent. At present, many government officials and economic analysts claim to be optimistic because the past three or four monsoons have been at best mediocre, and by the law of averages a good year is long overdue.

Agriculture: With more than 70 percent of India's population drawing its livelihood from the land, agricultural production is the crucial variable in Indian economic performance. The agricultural sector is still dependent on -- and painfully vulnerable to -- the vagaries of the southwest monsoon. In 1982/83 the monsoon began poorly and reached the major food producing areas two to three weeks late. Then it withdrew early so that cumulative rainfall was only slightly higher than the 1979 level, one of the worst years in history. In addition, the distribution of rainfall was uneven, with severe drought in some areas and flooding in others. As a result, the "kharif" or fall crop was very poor, foodgrain production falling to 71 million tons, well below the record level of 79 million tons of the previous year, and far below the target of 82 million tons. Production of other crops also declined from the previous year: oilseeds, from 15 to 13 million tons; sugarcane from 180 to 170 million tons; and jute, from 7.8 to 7.5 million bales. Cotton production at 8 million bales was at the same level as in 1981/82.

The winter "rabi" foodgrains crop has made up some of the ground lost to the poor monsoon. According to the latest official estimates a bumper wheat crop of 40 million tons has been harvested and total rabi foodgrains production is expected to be in the range of 57 million tons. This would bring total foodgrains production for 1982/83 up to 128 million tons, still 3.8 percent below the 1981/82 record level of 133 million tons. Other observers, however, believe the Government's estimates may be too high and that foodgrain production will be more in the range of 125-126 million tons. Overall agricultural production declined by at least 5-6 percent during 1982/83.

Because Indian agriculture is so dependent on the monsoon, which does not arrive until late May or June, at this point no one really knows what will happen in 1983/84. Coming off a drought year, the initial planting conditions for rice and coarse grains are unlikely to be very favorable since many parts of the country are suffering from moisture stress. Nevertheless, the Government is hopefully predicting foodgrains production at 142 million tons. The Government estimates rice production of 57 million tons, wheat at 41 million tons, coarse grains at 31 million tons, and pulses at 13 million tons. It is likely that the Government's forecast is much too optimistic and that even with favorable weather foodgrain production will not surpass 137 million tons. Government forecasts for other major crops are: sugarcane 180-185 million tons; cotton and jute, 8.2-8.5 million bales each.

Because of the poor harvest, prices of agricultural products on the open market were relatively high and there was increased demand for commodities sold through the Government's network of subsidized "fair price" shops. Total volume through the "fair price" shops amounted to 14.78 million tons in CY 1982 compared to 13.1 million in CY 1981. The 1983/84 budget projects sales of about 13 million tons and a much higher subsidy, $829 million versus $736 million in 1981/82. If there is another poor crop, of course, the subsidy would be still higher. The country's foodgrain stocks as of February 1983, amounted to 12.5 million tons, well below the desired level of 15-20 million tons. To replenish its stocks it is likely the Government will once again purchase foodgrains from abroad. In 1981/82, it imported 2.27 million tons and in 1982/83 3.95 million tons.

Industry: Industrial growth in 1982/83 was sluggish, around 3.0 percent, substantially less than the 8.6 percent rate of 1981/82. The slowdown was caused by a number of factors, including the decline in agricultural income as a result of the drought; a 15-month strike in the Bombay textile mills, which account for about one-third of the country's cotton textile capacity; continuing power shortages in many states; the effects of a tight credit policy imposed to curb inflation; and the general, worldwide recession, which has caused growth in export demand to slow or even to contract. Overall, infrastructure and the basic industries performed best. Revenue earning traffic on the railway increased by 3.0 percent and power generation expanded by 7.0 percent. Coal production was up 4.6 percent to 130.6 million tons; cement output, responding to partial deregulation, increased by 10.8 percent to 23 million tons; and fertilizer production expanded by 7.5 percent to 4.4 million nutrient tons. The laggard was

saleable steel production which, despite deregulation of prices, remained stable at 7.2 million tons in 1982/83. The stagnant production was caused by power shortages and weak domestic demand. The latter, partially induced by a tight credit policy, also caused a decline in the production of tractors and commercial vehicles.

India's public sector corporations with an investment of about $22 billion dominate many of the basic industries and traditionally have run significant losses. In 1981/82,however, they earned an after-tax profit of $503 million and in 1982/83 increased this to $622 million. The turn around was due to the introduction of more realistic pricing policies.Nevertheless, several large public enterprises engaged in engineering and the production of coal and fertilizers continue to be in the red because of poor management, resulting in low capacity utilization, (a condition that also characterizes many of the nominally profitable enterprises), and power shortages. Overall, public sector corporations are projected to invest $5.7 billion during 1983/84 compared to $4.2 billion in 1982/83.

Power Shortages: Despite the 7 percent increase in electricity generation, lack of sufficient power in the right places is the principal constraint on Indian economic growth in the medium term. For the economy as a whole it is estimated that demand exceeded electrical supply by 9.2 percent in 1982/83. In some states the situation was very serious. For example, such states as Tamil Nadu, Karnataka, Kerala, Orissa, West Bengal, Gujarat and Rajasthan were forced repeatedly to impose power cuts of 50 percent or more, severely reducing industrial output. Many industrial enterprises have installed their own captive power generating plants in order to assure a stable power supply and continue production. The power shortage problem does not arise from a lack of overall investment in the sector, but rather from delays in implementing power projects, underinvestment in transmission and distribution systems, and low capacity utilization due to poor management. For example, in 1982/83 additional generating capacity amounted to 3060 MW against a target of 3500 MW and the average plantload factor was about 49.8 percent. To remedy the situation the Government has taken a number of steps to improve the management and financial performance of the state electricity boards, which are directly responsible for the power sector, and it has initiated several very large thermal power projects with foreign technology and concessional financing. Even if these measures prove successful, it is not at all likely the situation will improve soon and power shortages will continue to be a major constraint on growth for the rest of this decade.

Oil Production: Following a 54 percent increase in 1981/82, production of crude oil expanded by another 30 percent to 21.06 million tons in 1982/83. This year it is projected to exceed 26 million tons. Consumption, on the other hand, will grow from 34 million tons to 36 million tons in 1983/84. All of the additional output has come from the offshore operations of the Oil and Natural Gas Commission and results from the huge investments India has made and will continue to make in oil and gas exploration and development. The Sixth Plan allocates $32.4 billion to energy development and the 10-year ONGC plan calls for investments of $27 billion in order to attain a production level of 45.5 million tons by 1990. American oil and gas equipment and services have played a key role in the development of India's petroleum sector and it will remain one of the growth areas for US exporters.

The expansion in petroleum production has been an important factor in Indian efforts to balance its external accounts. For the present, India exports the crude from its new offshore operations because of the lack of suitable refining facilities. Exports in 1982/83 amounted to roughly $1.2 billion, and the petroleum import bill, net of exports was $4.6 billion, down from $5.5 billion in 1981/82. As a percentage of total imports it declined from 37.1 percent to 32 percent.

Monetary Policy: India enjoyed relative price stability in 1982-83, with the average wholesale price index rising by 2.5 percent compared to 9.3 percent the previous year. Consumer prices rose by about 8 percent, the higher rate of increase reflecting the greater weight assigned to such items as foodgrains when calculating this index. It now appears that inflationary pressures are once again beginning to gain momentum. In 1982/83 the money supply continued to expand at a rate of 14-15 percent while economic growth declined to less than 1 percent. The resulting excess liquidity has caused the wholesale price index to rise by 5.5 percent during the first four months of 1983. It is likely that this trend will continue throughout the rest of the year. Among the items showing significant increases were foodgrains, oilseeds, coal, sugar, cement, and iron and steel. In addition, the Government recently announced increases in the prices of petroleum products and railway freight rates.

Prompted by concern over the rising rate of inflation the Reserve Bank of India has taken some steps to tighten credit for the next 5-6 months. In particular, to mop up the excess liquidity in commercial banks, it plans to raise the cash reserve ratio by a full percentage point in two steps before the end of July.

It has also raised the threshold at which it provides certain types of financing to commercial banks. In other recent credit policy developments, the Reserve Bank reduced the maximum interest rate on bank loans from 19.5 percent to 18 percent and increased the rate of interest on 5-year postal deposit rate from 10.5 percent to 11.5 percent.

Fiscal Policy: The 1982-83 budgetary deficit at $2.0 billion exceeded substantially the $1.4 billion initially estimated at the time of budget presentation in February 1982. The larger deficit stemmed from lower tax receipts than originally anticipated because of the slump in industrial growth and increased expenditures on such items as drought relief. While the 1983-84 budget forecasts a deficit of $ 1.7 billion, it is likely it will be much higher by the end of the year, if past experience is any indication.

The 1983-84 annual plan, which lays out the priorities for public investment, calls for total expenditures of $26.4 billion,up 21.5 percent over the previous year. Roughly 33 percent of expenditures are allocated to the energy sector, $4.8 billion to power and $2.9 billion to petroleum. Agriculture and irrigation will account for 21.5 percent, transport and communications for 15 percent, and industry and minerals for 13.7 percent.

Balance of Payments: India's balance of payments has been under pressure since 1979, when international oil prices doubled, causing the 1980/81 trade deficit to increase to $7.4 billion, compared to $3.2 billion the previous year. In 1981/82 the deficit narrowed somewhat to $6.5 billion and in 1982/83 it declined further to $6.0 billion, based on exports of $9.7 billion and imports of $15.7 billion. Increased exports of crude petroleum, which went up from $211 million in 1981/82 to $1.2 billion in 1982/83 account for most of the improvement. Leading exports other than petroleum were engineering goods, $1,378 million; gems and jewelry, $1,057 million; garments, $680 million; and chemicals, $650 million. The principal imports were crude and refined petroleum products, $5,788 million; machinery and equipment, $2,200 million; wheat $500 million; edible oils, $459 million; and fertilizer $342 million.

Faced with the prospect of declining concessional aid flows, Indian policy makers are trying to bring the country's external accounts more into balance without constricting economic growth. The essence of their strategy is to substitute domestic production for certain imports, especially oil and gas, fertilizer and edible oils, while increasing exports. At the same time, the Government has allowed somewhat freer imports

of certain capital and intermediate goods, with the aim of allowing domestic industry to produce more efficiently and be more competitive internationally. To finance the balance of payments while this strategy takes hold, the Government arranged in 1981 with the IMF for a 3-year $5.8 billion Extended Fund Facility. India is now in the second year of this loan and so far has drawn about $3 billion. At present, India's debt service ratio is relatively low, in the range of 12-13 percent. However, as the country borrows more on commercial or near commercial terms, the debt service ratio should rise to close to 20 percent toward the end of the decade.

So far India has been more successful in limiting import growth than in expanding exports. Excluding the sale abroad of crude petroleum, which will cease once domestic refineries have been expanded and retrofitted, exports, despite an array of government incentives, grew by only 2.2 percent in 1982/83. While the world recession is certainly one cause of the slow growth in exports during the past year, it is unlikely that in the medium term exports will account for much more of GNP than their present 5-6 percent. On the import side, in addition to oil, India has made progress in expanding the domestic production of fertilizers, cement, nonferrous metals and until recently iron and steel. We expect this trend to continue, causing the trade deficit to decline to less than $6.0 billion in 1983/84.

## IMPLICATIONS FOR THE UNITED STATES

As part of an effort to make the Indian economy more efficient, productive and competitive, in recent years the Government has relied somewhat more on market forces to allocate resources, has loosened some of its controls on the private sector, and has selectively liberalized its import policy. In this context,an encouraging trend is a slowly changing attitude within the Government towards private enterprise. Increasingly,Government officials show an awareness of the needs of the private sector and seek ways to reduce rather than to raise bureaucratic roadblocks. U.S. exporters and select investors will note a new openness and receptivity to their business proposals, particularly those that offer the prospect of significant technology transfer.

### Trade

U.S. exports to India declined from $1,922 million in 1980/81 to $1,579 million in 1981/82, a fall of 17.8 percent. At least in part, this was caused by a 13 percent appreciation in the dollar against the rupee in 1981 and a further 5.5 percent

appreciation in 1982. Despite the decline in exports, the U.S. still held the largest share of the Indian market, 10.4 percent, followed by the Soviet Union with 8.5 percent, Japan with 6.9 percent, and the UK with 6.2 percent. U.S. exports were concentrated in the broad categories of machinery and transportation equipment, chemicals and fertilizers, foodgrains, and edible oils. Indian exports to the U.S., on the other hand, showed a 4.1 percent increase, rising from $941 million in 1980/81 to $980 million in 1981/82. While widely diversified India's main exports to the U.S. were precious and semi-precious stones, wearing apparel, textile fabrics, tea and coffee.

American exporters considering the Indian market will find that many of the best opportunities during 1983/84 lie in the product categories being promoted by the Department of Commerce through the following events:

| | |
|---|---|
| October 1983 | Renewable Energy Equipment Video Catalog Show |
| October 1983 | Analytical and Scientific Instrument Catalog Show |
| November 1983 | Railroad Equipment Trade Mission |
| March 1984 | Oil and Gas Field Machinery Trade Mission |
| March 1984 | Used Production Equipment Trade Mission |

Additional best prospects are in the areas of power generation, transmission and distribution; electronic data processing; printing and graphic arts; food processing; metalworking; mining; and excavation and earthmoving.

Investment

From the Government's point of view the transfer of advanced technology through a licensing agreement is the most desirable form of foreign investment in India. The range of products for which this technique could be used is quite broad and many American companies find that a licensing arrangement is indeed a profitable avenue. Foreign equity participation of up to 100 percent is permitted if accompanied by very high technology or 100 percent export commitment. In general,however, foreign equity is limited to 40 percent. U.S. direct investment in India at the end of 1980 stood at $380 million of which the manufacturing sector accounted for 76 percent. In 1979 investment amounted to $351 million. The Government approved 110 Indo-US collaborations in 1982, up from 85 in 1981. Of this, only 22 percent involved some form of equity participation and the rest were technical licensing agreements. It should be noted that despite the general improvement in the business climate, Government approval of foreign ventures in the area of high technology electronics is still a time-consuming and not always successful process.

* U.S. GOVERNMENT PRINTING OFFICE: 1983-381-007:542